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TAGS: [KN](#) [KS](#) [PGOV](#) [PREL](#) [PINR](#)
SUBJECT: LEE MYUNG-BAK CLEARED IN BBK SCANDAL

Classified By: POL Joseph Y. Yun. Reasons 1.4 (b,d).

¶1. (C) Summary: On December 5, the Prosecutor's Office announced that Lee Myung-bak was clear of suspicion in the BBK stock manipulation scandal. While the United New Democratic Party (UNDP) and others have vowed to continue to fight to unearth Lee Myung-bak's connection to the scandal, the official announcement by the Prosecutor effectively means the end of BBK until after the presidential election. More importantly, the announcement should take the wind out of independent candidate Lee Hoi-chang's sails. UNDP candidate Chung Dong-young has pinned his hopes on unifying liberal candidates and connecting Lee Myung-bak to BBK. With one of his key goals out the window, Chung must now focus his efforts on trying to finish ahead of Lee Hoi-chang. Lee Myung-bak, who already enjoyed a 20 percentage point lead over the next most popular candidate, is likely to show even stronger poll results, making his win all but decided. End Summary.

Lee Myung-bak Cleared

¶2. (C) The Seoul prosecutor's office announced today that they found no evidence supporting allegations that Grand National Party (GNP) candidate and presidential frontrunner Lee Myung-bak co-owned the BBK asset management company with Kim Kyung-joon (aka Christopher Kim). A senior prosecutor said there was no proof that Lee rigged share prices in collusion with Kim.

No Hope for Other Candidates

¶3. (C) The announcement is bad news for the other candidates who counted on Lee's culpability to boost their own support ratings. UNDP candidate Chung Dong-young's team has repeatedly told poloffs that Chung was sure to attract some of the 25 percent of undecided voters who seemed to be waiting for the BBK announcement to commit. Conservative independent candidate Lee Hoi-chang -- who had a strong hold on second place until the latest KBS poll where he dropped to third -- justified his late entrance into the race citing the need for an alternative conservative candidate in the event Lee Myung-bak was implicated in the scandal. Now that the allegations have been dismissed, some Lee Hoi-chang supporters will likely switch their support back to the GNP candidate. A December 5 KBS poll showed some Lee Hoi-chang

supporters have already started to leave as he fell to third place in that poll (Lee Myung-bak, 42.1 percent; Chung Dong-young 18.9 percent; Lee Hoi-chang 18.2 percent) after holding a firm grasp on second place for over a month.

14. (C) Since last weekend, the prosecutor's office had been signaling Lee Myung-bak would be cleared of BBK-related charges. The impending announcement spurred a flurry of mergers with People's First Party candidate Shim Dae-pyoung joining Lee Hoi-chang and Chung Mong-joon joining Lee Myung-bak. Also various Democratic Party lawmakers and officials split off and pledged support for either Lee Hoi-chang or Lee Myung-bak. Also, Moon Kuk-hyun announced his intention to merge with Chung Dong-young.

Efforts to Keep BBK Alive

15. (C) The other candidates, who seem to have pinned their hopes on BBK, will try to keep the issue alive, but probably without much impact. The UNDP announced that if the prosecution does not reveal the full report of their investigation because of "political considerations," the party will push for the establishment of an independent counsel. With the National Assembly in recess, it is unlikely the party will be able to make good on that threat before the election.

16. (C) Despite this, the pro-government UNDP put a bill forward today requesting an independent counsel to investigate further, but it is unlikely to affect the December 19 election. For such a bill to pass, the National Assembly must open a special session, which is virtually impossible before the election. Also, the bill has almost no chance to pass the Legislative and Judiciary Committee so the bill would have to be brought directly to plenary by the Speaker of the Assembly. While a special session is likely to occur after the election to deal with the budget and other pending bills, it would be difficult for it to pass the plenary even if the Speaker brought it to a direct vote.

17. (C) Erica Kim, Kim Kyung-joon's sister, will hold a press conference in the U.S. refuting the prosecutors' findings. The family also released a hand-written note, written by Kim, saying prosecutors agreed to commute his sentence if he denied Lee's involvement in the scandal. The prosecutors denied such a deal ever existed and said it was Kim who tried to make a deal. The prosecutor's office also declared that the contract "proving" Lee's ownership of BBK that Kim Kyung-joon presented in his defense was forged. The Kim siblings have cried wolf enough times that people are unlikely to pay attention to further allegations by either Kim.

Comment

18. (C) Now that Lee Myung-bak is clear of BBK-related charges, it is hard to imagine a scenario in which he will not be the next president of Korea. The mad scramble by candidates and lawmakers to merge with each other emphasizes many have conceded this election to Lee Myung-bak and now are looking for the best way to set themselves up for the April 2008 National Assembly elections or even the next presidential election in 2012.

VERSHBOW